

103^D CONGRESS
2^D SESSION

S. 2160

To amend the Internal Revenue Code of 1986 to replace the corporate income tax with a broad-based business activities tax, to provide relief from such tax for individuals with moderate incomes, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 7, 1994

Mr. DANFORTH (for himself and Mr. BOREN) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to replace the corporate income tax with a broad-based business activities tax, to provide relief from such tax for individuals with moderate incomes, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Comprehensive Tax
5 Restructuring and Simplification Act of 1994”.

6 **SEC. 2. AMENDMENT OF 1986 CODE.**

7 Except as otherwise expressly provided, whenever in
8 this Act an amendment or repeal is expressed in terms

1 of an amendment to, or repeal of, a section or other provi-
 2 sion, the reference shall be considered to be made to a
 3 section or other provision of the Internal Revenue Code
 4 of 1986.

5 **TITLE I—REPEAL OF** 6 **CORPORATE INCOME TAX**

7 **SEC. 101. REPEAL OF CORPORATE INCOME TAX.**

8 (a) IN GENERAL.—Chapter 1 (relating to normal
 9 taxes and surtaxes) is amended by adding at the end the
 10 following new subchapter:

11 **“Subchapter W—Termination of Corporate** 12 **Income Tax**

“Sec. 1400. Termination of corporate income tax.

“Sec. 1401. Corporate distributions.

“Sec. 1402. Election of certain businesses to be taxed as domestic corporations.

13 **“SEC. 1400. TERMINATION OF CORPORATE INCOME TAX.**

14 “(a) TERMINATION.—Except as provided in this sec-
 15 tion, no tax shall be imposed under this chapter on any
 16 corporation for any taxable year.

17 “(b) PASSIVE INVESTMENT TAX.—

18 “(1) IMPOSITION OF TAX.—

19 “(A) IN GENERAL.—If, for any taxable
 20 year—

21 “(i) a C corporation has nonbusiness
 22 gross income, and

1 “(ii) the percentage determined by di-
2 viding the nonbusiness gross income by the
3 gross income of the C corporation for such
4 taxable year exceeds the applicable working
5 capital percentage,

6 then there is hereby imposed on such corpora-
7 tion a tax in the amount determined under sub-
8 paragraph (B).

9 “(B) AMOUNT OF TAX.—The amount of
10 tax determined under this subparagraph shall
11 be equal to the product of—

12 “(i) the nonbusiness gross income de-
13 scribed in paragraph (1)(A), and

14 “(ii) the highest rate of tax under sec-
15 tion 1 for taxable years beginning in the
16 same calendar year as the taxable year of
17 the C corporation.

18 “(C) NO CREDIT AGAINST TAX.—No credit
19 shall be allowed under this chapter against the
20 tax imposed by subparagraph (A).

21 “(D) SPECIAL RULE FOR FOREIGN COR-
22 PORATIONS.—No tax shall be imposed under
23 subparagraph (A) on any foreign corporation
24 unless the foreign corporation is exempt from

1 the tax imposed by section 884 (relating to
2 branch profits tax).

3 “(2) REDUCTION FOR CERTAIN DISTRIBUTIONS.—
4

5 “(A) IN GENERAL.—The amount of the
6 nonbusiness gross income for any taxable year
7 shall be reduced by the aggregate amount of
8 any distributions by the corporation to its
9 shareholders with respect to its stock—

10 “(i) which are made during the tax-
11 able year and not taken into account under
12 clause (ii) for the preceding taxable year,
13 or

14 “(ii) which—

15 “(I) are made after the close of
16 the taxable year and on or before the
17 45th day following the close of the
18 taxable year, and

19 “(II) are designated, at such
20 time and in such manner as the Sec-
21 retary may prescribe, as distributions
22 for purposes of this paragraph.

23 “(B) INCLUSION IN INCOME.—Any dis-
24 tribution described in subparagraph (A)(ii) shall
25 be included in the gross income of the share-

holder for the shareholder's taxable year which includes the last day of the taxable year of the corporation for which the reduction under subparagraph (A) was made.

“(3) DEFINITIONS.—For purposes of this subsection—

“(A) APPLICABLE WORKING CAPITAL PERCENTAGE.—

“(i) IN GENERAL.—The Secretary shall establish an applicable working capital percentage which, on the basis of the best information available, represents the ratio which the average nonbusiness gross income of corporations which is derived from assets held to provide reasonably required working capital bears to the average gross income of corporations.

“(ii) ADJUSTMENTS.—The Secretary may prescribe more than one percentage under clause (i) to reflect differences in industries, size, or other factors which affect reasonably required working capital.

“(B) NONBUSINESS GROSS INCOME.—For purposes of this subsection—

1 “(i) IN GENERAL.—The term
 2 ‘nonbusiness gross income’ means gross in-
 3 come other than gross income from a busi-
 4 ness activity (determined in the same man-
 5 ner as under chapter 100).

6 “(ii) EXCEPTIONS.—The term
 7 ‘nonbusiness gross income’ shall not in-
 8 clude any gross income derived from a
 9 transaction to the extent the gross receipts
 10 from the transaction are not taken into ac-
 11 count under chapter 100 by reason of sec-
 12 tion 10016.

13 “(4) SPECIAL RULES.—For purposes of this
 14 subsection—

15 “(A) AGGREGATION RULES.—The Sec-
 16 retary shall prescribe regulations providing for
 17 the aggregation of 2 or more persons to the ex-
 18 tent appropriate to carry out the purposes of
 19 this section.

20 “(B) STARTUP COMPANIES.—A corpora-
 21 tion shall not be treated as described in para-
 22 graph (1) for the first taxable year the corpora-
 23 tion has gross income if—

24 “(i) no predecessor of the corporation
 25 was described in paragraph (1),

1 “(ii) it is established to the satisfac-
2 tion of the Secretary that the corporation
3 will not be described in paragraph (1) for
4 either of the 1st 2 taxable years following
5 such first taxable year, and

6 “(iii) the corporation is not described
7 in paragraph (1) for either of such 2 tax-
8 able years.

9 “(C) COMPANIES CHANGING BUSINESS.—A
10 corporation shall not be treated as described in
11 paragraph (1) for any taxable year if—

12 “(i) neither the corporation nor any
13 predecessor was described in paragraph (1)
14 for any taxable year,

15 “(ii) it is established to the satisfac-
16 tion of the Secretary that—

17 “(I) substantially all of the
18 nonbusiness gross income of the cor-
19 poration for the taxable year is attrib-
20 utable to proceeds from the disposi-
21 tion of 1 or more active trades or
22 businesses, and

23 “(II) the corporation will not be
24 described in paragraph (1) for either

1 of the 1st 2 taxable years following
2 the taxable year, and

3 “(iii) the corporation is not described
4 in paragraph (1) for either of such 2 tax-
5 able years.

6 “(D) COMPUTATION OF GROSS RE-
7 CEIPTS.—In determining gross income for pur-
8 poses of this subsection, gross receipts for any
9 taxable year shall be reduced by returns and al-
10 lowances made during such taxable year, and
11 bad debt deductions for such taxable year.

12 “(E) PASSIVE FOREIGN INVESTMENT COM-
13 PANY INTERESTS.—Any taxpayer who owns (or
14 is treated under section 1297(a) as owning)
15 stock in a passive foreign investment company
16 shall be treated as owning stock in a qualified
17 electing fund without regard to whether the re-
18 quirements of paragraphs (1) and (2) of section
19 1295(a) are met.

20 “(c) EXCEPTION FOR CERTAIN TAXES ON FOREIGN
21 CORPORATIONS.—Subsection (a) shall not apply to any
22 tax imposed by section 881 or 884.

23 **“SEC. 1401. CORPORATE DISTRIBUTIONS.**

24 “(a) IN GENERAL.—Except as provided in subsection
25 (b), all distributions made by a corporation to a share-

1 holder with respect to its stock shall be treated as ordinary
 2 income of the shareholder.

3 “(b) EXCEPTIONS.—Except as provided in regula-
 4 tions, subsection (a) shall not apply to any distribution—

5 “(1) which is pursuant to a plan of liquidation,

6 “(2) which is in complete redemption of all of
 7 a shareholder’s stock in the corporation,

8 “(3) in the case of a corporation which main-
 9 tains adequate accounts of its earnings and profits,
 10 which does not constitute a dividend under section
 11 316, or

12 “(4) which represents a return of capital to the
 13 extent the distribution does not exceed the share-
 14 holder’s contributions to capital during the 60-day
 15 period ending with the date of the distribution.

16 This subsection shall not apply to any distribution to
 17 which section 1400(b)(2) applies.

18 **“SEC. 1402. ELECTION OF CERTAIN BUSINESSES TO BE**
 19 **TAXED AS DOMESTIC CORPORATIONS.**

20 “(a) GENERAL RULE.—If an election is made under
 21 this section with respect to any business which is not a
 22 C corporation—

23 “(1) such business shall be treated as a domes-
 24 tic C corporation for purposes of this subtitle (other
 25 than chapter 2 thereof), and

1 “(2) each owner of an equity interest in such
2 business shall be treated as a shareholder thereof in
3 proportion to such interest.

4 “(b) ELECTION.—

5 “(1) IN GENERAL.—An election under this sec-
6 tion—

7 “(A) shall be made not later than 2½
8 months after the close of the first taxable year
9 to which it applies, and

10 “(B) shall remain in effect until termi-
11 nated as provided in paragraph (2).

12 “(2) TERMINATION.—An election may be termi-
13 nated by an entity if made not later than 2½
14 months after the beginning of the first taxable year
15 to which the termination applies. A taxpayer termi-
16 nating an election under this paragraph may not
17 make an election under paragraph (1) for any suc-
18 ceeding taxable year without the consent of the Sec-
19 retary.

20 “(c) SPECIAL RULES.—For purposes of this sec-
21 tion—

22 “(1) FRINGE BENEFITS.—Notwithstanding sub-
23 section (a), a business to which subsection (a) ap-
24 plies shall not be treated as a domestic C corpora-
25 tion for purposes of applying the provisions of this

1 subtitle which relate to employee fringe benefits
2 (within the meaning of section 1372).

3 “(2) CORPORATE DISTRIBUTIONS AND ADJUST-
4 MENTS.—The Secretary shall provide regulations to
5 provide for the application of subchapter C of this
6 chapter to distributions (including liquidations) from
7 a business to which subsection (a) applies and to or-
8 ganizations and reorganizations of such a business.”

9 (b) CONFORMING AMENDMENT.—The table of sub-
10 chapters for chapter 1 is amended by adding at the end
11 the following new item:

“SUBCHAPTER W. Termination of corporate income tax.”

12 **SEC. 102. TECHNICAL AND CONFORMING CHANGES.**

13 The Secretary of the Treasury shall, not later than
14 6 months after the date of the enactment of this Act, sub-
15 mit to the Congress such technical and conforming
16 changes as are necessary to implement the amendments
17 made by this title.

18 **TITLE II—INDIVIDUAL INCOME**
19 **TAX RELIEF**

20 **SEC. 201. REDUCTION OF OASDI PAYROLL TAX RATE BY 50**
21 **PERCENT.**

22 (a) REDUCTION OF RATE.—

23 (1) EMPLOYEES.—Subsection (a) of section
24 3101 (relating to old-age, survivors, and disability
25 insurance) is amended to read as follows:

1 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
2 ANCE.—In addition to other taxes, there is hereby imposed
3 on the income of every individual a tax equal to 3.1 per-
4 cent of the wages (as defined in section 3121(a)) received
5 by such individual with respect to employment (as defined
6 in section 3121(b)).”

7 (2) EMPLOYERS.—Subsection (a) of section
8 3111 (relating to old-age, survivors, and disability
9 insurance) is amended to read as follows:

10 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
11 ANCE.—In addition to other taxes, there is hereby imposed
12 on every employer an excise tax, with respect to having
13 individuals in such employer’s employ, equal to 3.1 percent
14 of the wages (as defined in section 3121(a)) paid by such
15 employer with respect to employment (as defined in sec-
16 tion 3121(b)).”

17 (3) SELF-EMPLOYED.—Subsection (a) of sec-
18 tion 1401 (relating to old-age, survivors, and disabil-
19 ity insurance) is amended to read as follows:

20 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
21 ANCE.—In addition to other taxes, there shall be imposed
22 for each taxable year, on the self-employment income of
23 every individual, a tax equal to 6.2 percent of the amount
24 of self-employment income for such taxable year.”

1 (b) TRANSFER OF REVENUES TO TRUST FUNDS TO
2 REFLECT REDUCED TAXES.—

3 (1) OAS TRUST FUND.—Section 201(a) of the
4 Social Security Act (42 U.S.C. 401(a)) is amended
5 by striking “and” at the end of paragraph (3), by
6 striking the period at the end of paragraph (4) and
7 inserting “; and”, and by inserting after paragraph
8 (4) the following new paragraph:

9 “(5) such percentage of the taxes imposed by
10 subtitle K of the Internal Revenue Code of 1986 (re-
11 lating to business activities tax) as the Secretary of
12 the Treasury determines is necessary to equal the
13 amounts appropriated by clause (4).”

14 (2) DI TRUST FUND.—Section 201(b) of such
15 Act (42 U.S.C. 401(b)) is amended by striking
16 “and” at the end of paragraph (1), by striking the
17 period at the end of paragraph (2) and inserting “;
18 and”, and by inserting after paragraph (2) the fol-
19 lowing new paragraph:

20 “(3) such percentage of the taxes imposed by
21 subtitle K of the Internal Revenue Code of 1986 (re-
22 lating to business activities tax) as the Secretary of
23 the Treasury determines is necessary to equal the
24 amounts appropriated by clause (2).”

25 (3) CONFORMING AMENDMENTS.—

1 (A) Section 201(a) of such Act (42 U.S.C.
2 401(a)) is amended—

3 (i) by striking “amounts equivalent to
4 100 per centum of” in the matter preced-
5 ing paragraph (1) and inserting “amounts
6 equivalent to”,

7 (ii) by inserting “100 per centum of”
8 before “the taxes” in paragraphs (1), (2),
9 (3), and (4),

10 (iii) by striking “clauses (3) and (4)”
11 each place it appears and inserting
12 “clauses (3), (4), and (5)”, and

13 (iv) by striking “clauses (1) and (2)”
14 and inserting “clauses (1), (2), and (3)”.

15 (B) Section 201(b) of such Act (42 U.S.C.
16 401(b)) is amended—

17 (i) by striking “amounts equivalent to
18 100 per centum of” in the matter preced-
19 ing paragraph (1) and inserting “amounts
20 equivalent to”,

21 (ii) by inserting “100 per centum of”
22 before “(A) $\frac{1}{2}$ of 1 per centum” in para-
23 graph (1),

24 (iii) by striking “and before January
25 1, 2000, and so reported, and (P) 1.42 per

1 centum of the wages (as so defined) paid
2 after December 31, 1999, and so re-
3 ported,” in paragraph (1) and inserting
4 “and before January 1 of the year follow-
5 ing the date of the enactment of the Com-
6 prehensive Tax Restructuring and Sim-
7 plification Act, and so reported, (P) .60
8 per centum of the wages (as so defined)
9 paid on and after January 1 or such year,
10 and before January 1, 2000, and so re-
11 ported, and (Q) .71 per centum of the
12 wages (as so defined) paid after December
13 31, 1999, and so reported,”,

14 (iv) by inserting “100 per centum of”
15 before “(A) $\frac{3}{8}$ of 1 per centum” in para-
16 graph (2), and

17 (v) by striking “and before January 1,
18 2000, and (P) 1.42 per centum of the self-
19 employment income (as so defined) so re-
20 ported for any taxable year beginning after
21 December 31, 1999,” in paragraph (2) and
22 inserting “and before January 1 of the
23 year following the date of the enactment of
24 the Comprehensive Tax Restructuring and
25 Simplification Act, (P) .60 per centum of

1 the self-employment income (as so defined)
 2 so reported for any taxable year beginning
 3 on or after January 1 of such year, and
 4 before January 1, 2000, and (Q) .71 per
 5 centum of the self-employment income (as
 6 so defined) so reported for any taxable
 7 year beginning after December 31, 1999,”.

8 **SEC. 202. INCREASE IN STANDARD DEDUCTION.**

9 (a) IN GENERAL.—Subsection (f) of section 63 (de-
 10 fining taxable income) is amended—

11 (1) by redesignating paragraphs (1) through
 12 (4) as paragraphs (2) through (5), respectively,

13 (2) by inserting before paragraph (2) (as so re-
 14 designated) the following new paragraph:

15 “(1) ADDITIONAL AMOUNTS FOR LOW-INCOME
 16 TAXPAYERS.—

17 “(A) IN GENERAL.—The taxpayer shall be
 18 entitled to an additional amount equal to—

19 “(i) \$8,650 in the case of —

20 “(I) a joint return, or

21 “(II) a surviving spouse (as de-
 22 fined in section 2(a)),

23 “(ii) \$7,600 in the case of a head of
 24 household (as defined in section 2(b)),

1 “(iii) \$5,200 in the case of an individ-
2 ual who is not married and who is not a
3 surviving spouse or head of household, or

4 “(iv) \$4,325 in the case of a married
5 individual filing a separate return.

6 “(B) PHASE OUT OF ADDITIONAL
7 AMOUNT.—

8 “(i) IN GENERAL.—Each dollar
9 amount contained in subparagraph (A)
10 shall be reduced (but not below 0) by \$20
11 for each \$100 (or fraction thereof) by
12 which the individual’s adjusted gross in-
13 come for such taxable year exceeds the ap-
14 plicable amount.

15 “(ii) APPLICABLE AMOUNT.—For pur-
16 poses of clause (i), the applicable amount
17 for a taxpayer described in—

18 “(I) subparagraph (A)(i), is
19 \$45,000,

20 “(II) subparagraph (A)(ii), is
21 \$37,000,

22 “(III) subparagraph (A)(iii), is
23 \$27,000, and

24 “(IV) subparagraph (A)(iv), is
25 \$22,500.

“(C) ADJUSTMENTS FOR INFLATION.—In the case of any taxable year beginning after the first calendar year beginning after the effective date of this paragraph, each dollar amount contained in subparagraphs (A) and (B)(ii) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘the calendar year in which the effective date of section 63(f)(1) occurs’ for ‘calendar year 1992’ in subparagraph (B) thereof.”, and

(3) by striking “AGED” in the heading and inserting “LOW-INCOME, AGED,”.

(b) CONFORMING AMENDMENTS.—

(1) Section 1(f)(6) is amended by inserting “section 63(f)(1)(C),” after “63(c)(4),”.

(2) The heading for section 63(c)(3) is amended by striking “AGED” and inserting “LOW-INCOME, AGED,”.

(3) Section 63(c)(4) is amended by inserting “(other than paragraph (1))” after “or subsection (f)”.

1 **SEC. 203. INDIVIDUAL REFUNDABLE TAX CREDIT.**

2 (a) IN GENERAL.—Subpart C of part IV of sub-
 3 chapter A of chapter 1 (relating to refundable personal
 4 credits) is amended by inserting after section 32 the fol-
 5 lowing new section:

6 **“SEC. 32A. INDIVIDUAL TAX CREDIT.**

7 “(a) ALLOWANCE OF CREDIT.—

8 “(1) IN GENERAL.—In the case of an individ-
 9 ual, there shall be allowed as a credit against the tax
 10 imposed by this subtitle for the taxable year an
 11 amount equal to the product of—

12 “(A) so much of the taxpayer’s adjusted
 13 gross income for such taxable year as does not
 14 exceed the adjusted gross income amount, and

15 “(B) the rate of tax under section 10001
 16 for the calendar year in which the taxable year
 17 begins.

18 “(2) ADJUSTED GROSS INCOME AMOUNT.—For
 19 purposes of paragraph (1), the adjusted gross in-
 20 come amount in the case of—

21 “(A) a joint return or a surviving spouse
 22 (as defined in section 2(a)), is \$9,500,

23 “(B) a head of household (as defined in
 24 section 2(b)), is \$7,900,

1 “(C) an individual who is not married and
2 who is not a surviving spouse or head of house-
3 hold, is \$5,700, and

4 “(D) a married individual filing a separate
5 return, is \$4,750.

6 “(b) PHASE OUT OF CREDIT AMOUNT.—

7 “(1) IN GENERAL.—The amount determined
8 under subsection (a)(1) shall be reduced (but not
9 below 0) by \$20 for each \$100 (or fraction thereof)
10 by which the individual’s modified adjusted gross in-
11 come for such taxable year exceeds the applicable
12 amount.

13 “(2) APPLICABLE AMOUNT.—For purposes of
14 paragraph (1), the applicable amount for a taxpayer
15 described in—

16 “(A) subsection (a)(2)(A), is \$15,000,

17 “(B) subsection (a)(2)(B), is \$13,200,

18 “(C) subsection (a)(2)(C), is \$9,000, and

19 “(D) subsection (a)(2)(D), is \$7,500.

20 “(3) MODIFIED ADJUSTED GROSS INCOME.—

21 For purposes of paragraph (1), the term ‘modified
22 adjusted gross income’ means adjusted gross in-
23 come—

24 “(A) determined without regard to sections
25 135, 911, 931, and 933,

1 “(B) without regard to the deduction al-
2 lowable under section 219,

3 “(C) increased by the amount of social se-
4 curity benefits not included in gross income
5 under section 86, and

6 “(D) increased by the amount of interest
7 received or accrued by the taxpayer during the
8 taxable year which is exempt from tax.

9 “(c) ADJUSTMENTS FOR INFLATION.—In the case of
10 any taxable year beginning after the first calendar year
11 beginning after the effective date of this section, each dol-
12 lar amount contained in subsections (a)(2) and (b)(2)
13 shall be increased by an amount equal to—

14 “(1) such dollar amount, multiplied by

15 “(2) the cost-of-living adjustment determined
16 under section 1(f)(3) for the calendar year in which
17 the taxable year begins, by substituting ‘the calendar
18 year in which the effective date of section 32A oc-
19 curs’ for ‘calendar year 1992’ in subparagraph (B)
20 thereof.”

21 “(d) APPLICABLE RULES.—Rules similar to the rules
22 of subsections (d), (e), (g), and (h) of section 32 shall
23 apply to any credit to which this section applies.”

24 (b) ADVANCE PAYMENT OF CREDIT.—Chapter 25
25 (relating to general provisions relating to employment

1 taxes) is amended by inserting after section 3507 the fol-
2 lowing new section:

3 **“SEC. 3507A. ADVANCE PAYMENT OF INDIVIDUAL TAX**
4 **CREDIT.**

5 “(a) GENERAL RULE.—Except as otherwise provided
6 in this section, every employer making payment of wages
7 with respect to whom an individual tax credit eligibility
8 certificate is in effect shall, at the time of paying such
9 wages, make an additional payment equal to such employ-
10 ee’s individual tax credit advance amount.

11 “(b) INDIVIDUAL TAX CREDIT ELIGIBILITY CERTIFI-
12 CATE.—For purposes of this title, an individual tax credit
13 eligibility certificate is a statement furnished by an em-
14 ployee to the employer which—

15 “(1) certifies that the employee will be eligible
16 to receive the credit provided by section 32A for the
17 taxable year,

18 “(2) certifies that the employee does not have
19 an individual tax credit eligibility certificate in effect
20 for the calendar year with respect to the payment of
21 wages by another employer,

22 “(3) states whether or not the employee’s
23 spouse has an individual tax credit eligibility certifi-
24 cate in effect, and

1 “(4) estimates the individual’s adjusted gross
2 income and modified adjusted gross income for the
3 calendar year.

4 For purposes of this section, a certificate shall be treated
5 as being in effect with respect to a spouse if such a certifi-
6 cate will be in effect on the first status determination date
7 following the date on which the employee furnishes the
8 statement in question.

9 “(c) INDIVIDUAL TAX CREDIT ADVANCE AMOUNT.—

10 “(1) IN GENERAL.—For purposes of this title,
11 the term ‘individual tax credit advance amount’
12 means, with respect to any payroll period, the
13 amount determined—

14 “(A) on the basis of the employee’s wages
15 from the employer for such period,

16 “(B) on the basis of the employee’s esti-
17 mated adjusted gross income and modified ad-
18 justed gross income included in the individual
19 tax credit eligibility certificate, and

20 “(C) in accordance with tables provided by
21 the Secretary.

22 “(2) ADVANCE AMOUNT TABLES.—The tables
23 referred to in paragraph (1)(C) shall be similar in
24 form to the tables prescribed under section 3402
25 and, to the maximum extent feasible, shall be coordi-

1 nated with such tables and the tables prescribed
2 under section 3507(c).

3 “(d) OTHER RULES.—For purposes of this section,
4 rules similar to the rules of subsections (d) and (e) of sec-
5 tion 3507 shall apply.

6 “(e) REGULATIONS.—The Secretary shall prescribe
7 such regulations as may be necessary to carry out the pur-
8 poses of this section.”

9 (c) CONFORMING AMENDMENT.—Section 1(f)(6), as
10 amended by section 202(b)(1), is amended by inserting
11 “section 32A(c),” before “63(c)(4),”.

12 (d) CLERICAL AMENDMENTS.—

13 (1) The table of sections for subpart A of part
14 IV of subchapter A of chapter 1 is amended by in-
15 serting after the item relating to section 32 the fol-
16 lowing new item:

“Sec. 32A. Individual tax credit.”

17 (2) The table of sections for chapter 25 is
18 amended by adding after the item relating to section
19 3507 the following new item:

“Sec. 3507A. Advance payment of individual tax credit.”

20 **TITLE III—BUSINESS ACTIVITIES** 21 **TAX**

22 **SEC. 301. BUSINESS ACTIVITIES TAX IMPOSED.**

23 The Internal Revenue Code of 1986 is amended by
24 adding at the end the following new subtitle:

1 **“Subtitle K—Business Activities**
 2 **Tax**

“CHAPTER 100. Business activities tax.

3 **“CHAPTER 100—BUSINESS ACTIVITIES**
 4 **TAX**

“SUBCHAPTER A. Imposition of tax.

“SUBCHAPTER B. Computation of tax.

“SUBCHAPTER C. General rules.

“SUBCHAPTER D. Special rules.

“SUBCHAPTER E. Refunds; small business exemption.

“SUBCHAPTER F. Definitions.

“SUBCHAPTER G. Administration.

5 **“Subchapter A—Imposition of Tax**

“Sec. 10001. Tax imposed.

6 **“SEC. 10001. TAX IMPOSED.**

7 “In the case of any person engaged in any business
 8 activity, there is hereby imposed for each taxable period
 9 a tax in an amount equal to 14.5 percent of the taxable
 10 amount.

11 **“Subchapter B—Computation of Tax**

“Sec. 10011. Taxable amount.

“Sec. 10012. Business activity.

“Sec. 10013. Activities not treated as business activity.

“Sec. 10014. Gross receipts from business activities.

“Sec. 10015. Business purchases.

“Sec. 10016. Exemption for certain nontaxable exchanges.

12 **“SEC. 10011. TAXABLE AMOUNT.**

13 “(a) IN GENERAL.—For purposes of this chapter, the
 14 term ‘taxable amount’ means the amount by which—

15 “(1) the gross receipts of any person from busi-
 16 ness activities for a taxable period, exceed

1 “(2) the business purchases of such person for
2 the taxable period.

3 “(b) CROSS REFERENCES.—For special rules, see
4 sections 10022, 10032, and 10034.

5 **“SEC. 10012. BUSINESS ACTIVITY.**

6 “For purposes of this chapter, the term ‘business ac-
7 tivity’ means—

8 “(1) the sale of property or services in the
9 United States by any person in connection with a
10 business,

11 “(2) the import of property or services into the
12 United States, or

13 “(3) the export of property or services from the
14 United States in connection with a business.

15 **“SEC. 10013. ACTIVITIES NOT TREATED AS BUSINESS ACTIV-**
16 **ITY.**

17 “For purposes of this chapter, the term ‘business ac-
18 tivity’ does not include—

19 “(1) the performance of services by an em-
20 ployee for the employee’s employer, or

21 “(2) any import of an article that is free of
22 duty under chapter 98 of the Harmonized Tariff
23 Schedule of the United States.

1 **“SEC. 10014. GROSS RECEIPTS FROM BUSINESS ACTIVITIES.**

2 “(a) IN GENERAL.—For purposes of this chapter, the
3 term ‘gross receipts’ means all receipts from a business
4 activity.

5 “(b) EXCHANGES.—For purposes of this chapter, the
6 amount treated as gross receipts from the exchange of
7 property or services is the fair market value of the prop-
8 erty or services received, plus any money received.

9 “(c) EXPORTS AND IMPORTS.—

10 “(1) EXPORTS OF PROPERTY OR SERVICES.—
11 For treatment of exports, see section 10031.

12 “(2) IMPORTS OF PROPERTY OR SERVICES.—
13 For treatment of imports, see section 10032.

14 “(3) INTERNATIONAL TRANSPORTATION.—For
15 treatment of international transportation services,
16 see section 10033.

17 “(d) CERTAIN INSURANCE PROCEEDS.—For pur-
18 poses of this chapter, the term ‘gross receipts’ includes
19 the proceeds of property and casualty insurance for losses
20 in connection with business property or services.

21 “(e) TAXES.—For purposes of this chapter, the term
22 ‘gross receipts’ includes any excise tax, sales tax, customs
23 duty, or other separately stated levy imposed by a Federal,
24 State, or local government on property or services sold in
25 a business activity received or collected by the seller in
26 connection with the sale. Gross receipts shall not include

1 any tax imposed by chapter 31, 32, 33, 34, 35, 36, 39,
2 51, 52, or 53.

3 “(f) TRANSFERS TO RELATED PERSONS.—

4 “(1) IN GENERAL.—For purposes of this chap-
5 ter, any transfer of property or services to a related
6 person shall be treated as a sale of such property or
7 services for an amount equal to the fair market
8 value of the property or services.

9 “(2) RELATED PERSON.—For purposes of this
10 subsection, the term ‘related person’ means—

11 “(A) in the case of an employment rela-
12 tionship, an employer and employee,

13 “(B) in the case of any entity, an owner of
14 the entity,

15 “(C) any person specified in regulations,
16 and

17 “(D) any member of the family (within the
18 meaning of section 267(c)(4)) of any individual
19 described in subparagraph (A), (B), or (C).

20 “(3) OWNER.—For purposes of paragraph (2),
21 the term ‘owner’ means—

22 “(A) the proprietor of a sole proprietor-
23 ship, and

1 “(B) any holder of a beneficial interest in
2 a corporation, partnership, trust, or other en-
3 tity.

4 **“SEC. 10015. BUSINESS PURCHASES.**

5 “(a) IN GENERAL.—For purposes of this chapter, the
6 term ‘business purchase’ means any amount paid or in-
7 curred to purchase property or services for use in a busi-
8 ness activity other than—

9 “(1) amounts the payment of which is unlawful
10 under Federal, State, or local law, or

11 “(2) except as provided in subsection (d)—

12 “(A) interest,

13 “(B) premiums for insurance other than
14 property and casualty insurance, or

15 “(C) other implicit intermediation fees.

16 “(b) COMPENSATION EXPENSE NOT INCLUDED.—
17 The term ‘business purchase’ does not include any amount
18 paid or incurred as current or deferred compensation to
19 employees, or for employee benefits.

20 “(c) EXPORTS AND IMPORTS.—

21 “(1) EXPORTS.—For treatment of exports, see
22 section 10033(b)(1).

23 “(2) IMPORTS.—For treatment of imports, see
24 section 10032.

1 “(3) INTERNATIONAL TRANSPORTATION.—For
2 treatment of international transportation services,
3 see section 10033.

4 “(d) FINANCIAL INTERMEDIATION SERVICES.—

5 “(1) IN GENERAL.— For purposes of this chap-
6 ter, business purchases include amounts allocable to
7 the business activity for which a person has received
8 notice under section 10034(d) (relating to implicit
9 financial intermediation fees) and which have other-
10 wise not been taken into account.

11 “(2) CROSS REFERENCE.—For additional treat-
12 ment of financial intermediation services, see section
13 10034.

14 “(e) EXCHANGES.—For purposes of this chapter, the
15 amount treated as paid or incurred for business purchases
16 in connection with the exchange of property or services
17 is the fair market value of the property or services ex-
18 changed, plus any money paid.

19 “(f) TAXES.—For purposes of this chapter, the term
20 ‘business purchase’ includes any excise tax, sales tax, cus-
21 toms duty, or other separately stated levy imposed by a
22 Federal, State, or local government on property or services
23 purchased for use in a business activity.

24 “(g) GAMBLING PAYMENTS.—Except as provided in
25 subsection (a)(1), in the case of a business activity involv-

1 ing gambling, lotteries, or other games of chance, business
 2 purchases include amounts paid to winners.

3 **“SEC. 10016. EXEMPTION FOR CERTAIN NONTAXABLE EX-**
 4 **CHANGES.**

5 “(a) GENERAL RULE.—For purposes of this chapter,
 6 gross receipts shall not include gross receipts from an ap-
 7 plicable nontaxable transaction except to the extent attrib-
 8 utable to money or other property received in the trans-
 9 action.

10 “(b) APPLICABLE NONTAXABLE TRANSACTIONS.—
 11 For purposes of this section, the term ‘applicable non-
 12 taxable transaction’ means any transaction—

13 “(1) to which section 332, 351, 368, or 721 ap-
 14 plies, or

15 “(2) which is specified by the Secretary and
 16 with respect to which gain is not recognized in whole
 17 or in part under chapter 1.

18 **“Subchapter C—General Rules**

“Sec. 10021. Accounting methods.

“Sec. 10022. Governmental entities and exempt organizations.

“Sec. 10023. Post-sale price adjustments and refunds; bad debts.

“Sec. 10024. Source rules.

“Sec. 10025. Transfer in satisfaction of debt.

“Sec. 10026. Conversions.

19 **“SEC. 10021. ACCOUNTING METHODS.**

20 “(a) IN GENERAL.—Except as provided in this sec-
 21 tion, a person subject to tax under this chapter may use

1 any of the following methods of accounting for purposes
2 of this chapter:

3 “(1) The cash receipts and disbursements
4 method.

5 “(2) An accrual method.

6 “(3) Any other method permitted by the Sec-
7 retary.

8 The Secretary may require a person to modify any method
9 to clearly reflect gross receipts and business purchases.

10 “(b) CONSISTENCY REQUIREMENT.—All persons
11 which are members of a controlled group of corporations
12 which does not elect to be treated as one person for pur-
13 poses of this chapter under section 10063(a)(2) shall use
14 the same method of accounting for purposes of this chap-
15 ter.

16 “(c) SPECIAL RULES FOR LONG-TERM CON-
17 TRACTS.—

18 “(1) IN GENERAL.—In the case of any sale pur-
19 suant to a long-term contract (as defined in section
20 460(f))—

21 “(A) the seller shall use the percentage of
22 completion method in computing gross receipts
23 from the contract, and

1 “(B) the purchaser shall use the cash re-
 2 ceipts and disbursements method in computing
 3 business purchases from the contract.

4 “(2) REPORTING.—The Secretary may require
 5 taxpayers to file statements containing such infor-
 6 mation with respect to long-term contracts as the
 7 Secretary may prescribe.

8 “(d) INSTALLMENT METHOD PROHIBITED.—Gross
 9 receipts from the sale of property shall not be taken into
 10 account for purposes of this chapter under the installment
 11 method.

12 **“SEC. 10022. GOVERNMENTAL ENTITIES AND EXEMPT OR-**
 13 **GANIZATIONS.**

14 “(a) GOVERNMENTAL ENTITIES.—For purposes of
 15 this chapter, the transfer of property or furnishing of serv-
 16 ices by a governmental entity with respect to any of the
 17 following activities shall be treated as a business activity:

18 “(1) Public utility services.

19 “(2) Mass transit services.

20 “(3) Postal services.

21 “(4) Any activity not involving the exercise of
 22 any essential governmental function (within the
 23 meaning of section 115).

24 “(b) EXEMPT ORGANIZATIONS.—For purposes of
 25 this chapter—

1 “(1) IN GENERAL.—Except as provided in this
2 subsection, the transfer of property or furnishing of
3 services by an exempt organization shall be treated
4 as a business activity.

5 “(2) EXCEPTION FOR SECTION 501 (C)(3) ORGA-
6 NIZATIONS.—Paragraph (1) shall not apply to an ex-
7 empt organization described in section 501(c)(3) un-
8 less the activity constitutes an unrelated trade or
9 business (within the meaning of section 513) of the
10 organization.

11 “(c) GROSS RECEIPTS.—If there is no separately
12 stated charge with respect to any transfer or furnishing
13 to which subsection (a) or (b) applies, gross receipts shall
14 be determined on the basis of the fair market value of
15 the property transferred or services furnished.

16 “(d) ALLOCATION.—The Secretary shall by regula-
17 tion provide for the proper allocation of gross receipts and
18 business purchases between business activities and other
19 activities.

20 “(e) SELF-CONSUMPTION OF PROPERTY OR SERV-
21 ICES.—Notwithstanding the provisions of this section, the
22 Secretary may by regulation provide that property pro-
23 duced, or services furnished, by a governmental entity or
24 an exempt organization for use by itself are to be treated
25 as sold in a business activity if such treatment is necessary

1 to carry out the purposes of this chapter. In any such case
 2 the taxable amount shall be determined by reference to
 3 the fair market value of the property or services.

4 **“SEC. 10023. POST-SALE PRICE ADJUSTMENTS AND RE-**
 5 **FUNDS; BAD DEBTS.**

6 “(a) PRICE ADJUSTMENTS AND REFUNDS.—

7 “(1) RECEIPT TREATED AS REDUCTION IN
 8 BUSINESS PURCHASES.—If a person subject to tax
 9 under this chapter receives a post-sale price adjust-
 10 ment attributable to a business purchase which was
 11 taken into account in computing the taxable amount
 12 for a prior taxable period, then the amount of such
 13 adjustment shall be treated as a reduction in busi-
 14 ness purchases for the taxable period in which it is
 15 received.

16 “(2) ISSUANCE TREATED AS REDUCTION IN
 17 GROSS RECEIPTS.—If a person subject to tax under
 18 this chapter issues a post-sale price adjustment for
 19 a sale the gross receipts from which were taken into
 20 account in computing the taxable amount for a prior
 21 taxable period, then the amount of such adjustment
 22 shall be treated as a reduction in gross receipts for
 23 the taxable period in which it is issued.

24 “(3) POST-SALE PRICE ADJUSTMENT.—For
 25 purposes of this subsection, the term ‘post-sale price

1 adjustment' means a refund, rebate, or other price
2 allowance attributable to a sale of property or serv-
3 ices.

4 “(b) BAD DEBTS.—

5 “(1) SELLER.—

6 “(A) WRITEOFFS AND WRITEDOWNS.—If
7 an amount owed to a seller of business property
8 or services that was taken into account as gross
9 receipts in computing the taxable amount of the
10 seller for a prior taxable period becomes wholly
11 or partially uncollectible during any subsequent
12 taxable period, then the seller shall treat the
13 amount (or part thereof that is uncollectible) as
14 a reduction in gross receipts for the taxable pe-
15 riod in which it becomes wholly or partially
16 uncollectible.

17 “(B) NOTICE.—Whenever a seller treats
18 an amount as wholly or partially uncollectible
19 under subparagraph (A), the seller shall notify
20 the purchaser of the amount the seller is treat-
21 ing as uncollectible. The notice shall set forth
22 with specificity the purchase or purchases to
23 which the treatment relates and shall be sent to
24 the purchaser at the purchaser's last known ad-
25 dress within 10 days after close of the taxable

1 period in which the seller treats the amount as
2 wholly or partially uncollectible.

3 “(C) RECOVERIES.—If a seller receives
4 payment for an amount that was treated as a
5 reduction in gross receipts under subparagraph
6 (A) in a prior taxable period, then the seller
7 shall treat the payment as a gross receipt for
8 the taxable period in which it is received.

9 “(2) PURCHASER.—

10 “(A) WRITEOFFS AND WRITEDOWNS.—If a
11 purchaser receives notice under paragraph
12 (1)(B) from a seller for all or a portion of the
13 amount owed for business property or services
14 that the purchaser treated as a business pur-
15 chase in a prior taxable period, then the pur-
16 chaser shall treat such amount as a reduction
17 in business purchases for the taxable period in
18 which the notice is received.

19 “(B) REPAYMENTS.—If a purchaser pays
20 all or part of an amount treated as a reduction
21 in business purchases under subparagraph (A)
22 in a prior taxable period, then the purchaser
23 shall treat the amount paid as a business pur-
24 chase for the taxable period in which the pay-
25 ment is made.

1 **“SEC. 10024. SOURCE RULES.**

2 “(a) SALES OF PROPERTY.—For purposes of this
3 chapter, a sale of property shall be treated as occurring
4 in the United States if the property is located in the
5 United States at the time of the sale.

6 “(b) SALES OF SERVICES.—

7 “(1) GENERAL RULE.—For purposes of this
8 chapter, a sale of services shall be treated as occur-
9 ring in the United States to the extent that—

10 “(A) the services are provided from a place
11 of business, or with respect to property, in the
12 United States, or

13 “(B) the services are incidental to the pro-
14 vision of services within the United States.

15 “(2) CROSS REFERENCE.—For treatment of
16 international transportation services, see section
17 10033.

18 **“SEC. 10025. TRANSFER IN SATISFACTION OF DEBT.**

19 “For purposes of this chapter, the transfer of prop-
20 erty or services by a debtor to a creditor in exchange for
21 a reduction of debt shall be treated as a sale of such prop-
22 erty or services for an amount equal to the amount by
23 which the debt is reduced.

24 **“SEC. 10026. CONVERSIONS.**

25 For purposes of this chapter, any conversion of prop-
26 erty or services from use in a business activity to use in

1 any other activity, or from use in any other activity to
 2 use in a business activity, shall be treated as a sale of
 3 the property or services for their fair market value.

4 **“Subchapter D—Special Rules**

“Sec. 10031. Exports of property or services.
 “Sec. 10032. Imports of property or services.
 “Sec. 10033. International transportation services.
 “Sec. 10034. Financial intermediation services.
 “Sec. 10035. Other special rules.

5 **“SEC. 10031. EXPORTS OF PROPERTY OR SERVICES.**

6 “(a) GENERAL RULE.—For purposes of this chapter,
 7 the term ‘gross receipts’ does not include amounts received
 8 by the exporter thereof for property or services exported
 9 from the United States for use or consumption outside
 10 the United States.

11 “(b) EXPORT THROUGH NONBUSINESS ENTITY.—
 12 For purposes of subsection (a), if property or services are
 13 sold to a governmental entity or exempt organization for
 14 export and are exported other than in a business activity
 15 of such entity or organization, then the seller of such prop-
 16 erty or services is deemed to be the exporter thereof.

17 **“SEC. 10032. IMPORTS OF PROPERTY OR SERVICES.**

18 “(a) IN GENERAL.—For purposes of this chapter, the
 19 taxable amount with respect to the import of property or
 20 services for use or consumption within the United States
 21 is the sum of—

22 “(1) the amount paid or incurred for the prop-
 23 erty or services, plus

1 “(2) in the case of property, any amounts paid
2 or incurred for transportation costs (if such costs
3 are not included in the amount paid for the prop-
4 erty).

5 “(b) IMPORTS OF PREVIOUSLY EXPORTED PROP-
6 PERTY.—

7 “(1) IN GENERAL.—For purposes of this chap-
8 ter, the taxable amount for any import of property
9 that is returned to the United States—

10 “(A) after export for repairs or alterations
11 abroad, or

12 “(B) after export to undergo assembly,
13 processing, manufacture, or other changes in
14 condition abroad,

15 is the net cost to the importer of such repairs, alter-
16 ations, assembly, processing, manufacture, or other
17 change in condition.

18 “(2) LIMITATION FOR PREVIOUSLY EXPORTED
19 PROPERTY.—Paragraph (1) shall apply only to prop-
20 erty—

21 “(A) that the importer acquired before ex-
22 port, and

23 “(B) as to which there has been no trans-
24 fer of ownership between the time of export and
25 import.

1 “(c) BUSINESS PURCHASES OF IMPORTS.—For pur-
2 poses of this chapter—

3 “(1) IN GENERAL.—The term ‘business pur-
4 chase’ includes—

5 “(A) the amount determined under sub-
6 section (a) for property or services, plus

7 “(B) the amount of tax payable under this
8 chapter with respect to the import of such prop-
9 erty or services.

10 “(2) BUSINESS ACTIVITY REQUIRED.—A person
11 may not include any amount described in paragraph
12 (1) in business purchases unless the person uses the
13 property or services in a business activity.

14 **“SEC. 10033. INTERNATIONAL TRANSPORTATION SERVICES.**

15 “(a) GROSS RECEIPTS.—For purposes of this chap-
16 ter—

17 “(1) EXPORTS.—The term ‘gross receipts’ does
18 not include receipts from transportation of property
19 exported from the United States.

20 “(2) IMPORTS.—The term ‘gross receipts’ does
21 not include receipts from the transportation of prop-
22 erty imported into the United States unless such re-
23 cepts are not taken into account under section
24 10032 in computing the taxable amount with respect
25 to the property.

1 “(b) BUSINESS PURCHASES.—For purposes of this
2 chapter—

3 “(1) EXPORTS.—The term ‘business purchase’
4 does not include amounts paid or incurred for trans-
5 portation of property exported from the United
6 States.

7 “(2) IMPORTS.—For treatment as business pur-
8 chases of amounts paid or incurred for transpor-
9 tation of property imported into the United States,
10 see section 10032(c).

11 “(c) INTERNATIONAL TRANSPORTATION OF PAS-
12 SENGERS.—For purposes of this chapter—

13 “(1) GROSS RECEIPTS.—Gross receipts—

14 “(A) include receipts from the transpor-
15 tation of passengers from outside the United
16 States to a destination in the United States,
17 but

18 “(B) do not include receipts from the
19 transportation of passengers from the United
20 States to a destination outside the United
21 States.

22 “(2) BUSINESS PURCHASES.—Business pur-
23 chases—

24 “(A) include amounts paid or incurred in
25 a business activity for the transportation of

1 passengers from outside the United States to a
 2 destination in the United States, but

3 “(B) do not include amounts paid or in-
 4 curred in a business activity for the transpor-
 5 tation of passengers from the United States to
 6 a destination outside the United States.

7 **“SEC. 10034. FINANCIAL INTERMEDIATION SERVICES.**

8 “(a) GENERAL RULE.—For purposes of this chap-
 9 ter—

10 “(1) the providing of financial intermediation
 11 services shall be treated as a business activity, and

12 “(2) this chapter shall be applied to the busi-
 13 ness activity by substituting financial receipts and
 14 adjusted business purchases properly allocable to
 15 such business activity for gross receipts and business
 16 purchases.

17 “(b) FINANCIAL RECEIPTS.—For purposes of this
 18 section, the term ‘financial receipts’ means all receipts
 19 other than amounts received as contributions to capital.

20 “(c) ADJUSTED BUSINESS PURCHASES.—For pur-
 21 poses of this section, the term ‘adjusted business pur-
 22 chases’ means business purchases, adjusted as follows:

23 “(1) PRINCIPAL AND INTEREST.—Business
 24 purchases include any principal or interest payments
 25 properly allocable to the business activity described

1 in subsection (a). The preceding sentence shall not
2 apply to any principal or interest payments other-
3 wise allocable to business purchases (determined
4 without regard to this section or section 10015(b)).

5 “(2) FINANCIAL INSTRUMENTS.—Notwithstand-
6 ing section 10051(3), business purchases include the
7 cost of, and payments under, financial instruments
8 (other than financial instruments representing eq-
9 uity interests in the person subject to the tax im-
10 posed by this chapter).

11 “(3) INSURANCE CLAIMS.—Business purchases
12 include claims and cash surrender values paid in
13 connection with insurance or reinsurance services.

14 “(4) REINSURANCE.—Business purchases in-
15 clude amounts paid for reinsurance.

16 “(d) REPORTING TO CUSTOMERS.—

17 “(1) ALLOCATION AND REPORTING.—

18 “(A) IN GENERAL.—A person engaged in
19 the business activity of providing financial
20 intermediation services shall—

21 “(i) allocate fees received for such
22 services (other than services for which sep-
23 arately stated fees are charged) among re-
24 cipients of such services on a reasonable
25 and consistent basis, and

1 “(ii) report to each recipient the fees
2 so allocated.

3 “(B) TIMING.—The report under subpara-
4 graph (A)(ii) shall be furnished to the recipient
5 no later than the 45th day after the close of a
6 taxable period.

7 “(2) EXCEPTION.—The Secretary shall estab-
8 lish procedures under which notice need not be given
9 under this subsection to persons with respect to
10 whom services are not provided in connection with a
11 business activity.

12 “(e) DEFINITIONS.—For purposes of this section—

13 “(1) FINANCIAL INTERMEDIATION SERVICE.—
14 The term ‘financial intermediation service’ means—

15 “(A) lending services,

16 “(B) insurance services,

17 “(C) market-making and dealer services,

18 and

19 “(D) any other service provided as a busi-
20 ness activity in which a person acts as an
21 intermediary in—

22 “(i) the transfer of property, services,
23 or financial assets, liabilities, risks, or in-
24 struments (or income or expense derived

1 therefrom) between two or more other per-
2 sons, or

3 “(ii) the pooling of economic risk
4 among other persons,

5 and derives all or a portion of such person’s
6 gross receipts from streams of income or ex-
7 pense, discounts, or other financial flows associ-
8 ated with the matter with respect to which such
9 person is acting as an intermediary.

10 “(2) LENDING SERVICES.—The term ‘lending
11 services’ means the regular making of loans and pro-
12 viding credit to, or taking deposits from, customers,
13 but does not include an installment or delayed pay-
14 ment arrangement provided by a seller of property
15 or services under which additional charges or fees
16 are imposed by the seller for late payment and for
17 which no interest is charged.

18 “(3) MARKET-MAKING OR DEALER SERVICES.—
19 The term ‘market-making or dealer services’ means
20 services provided by a person who—

21 “(A) regularly purchases financial instru-
22 ments from or sells financial instruments to
23 customers in the ordinary course of a trade or
24 business, or

1 “(B) regularly offers to enter into, assume,
2 offset, assign, or otherwise terminate positions
3 in financial instruments with customers in the
4 ordinary course of a trade or business.

5 **“SEC. 10035. OTHER SPECIAL RULES.**

6 “(a) EXCHANGES CLASSIFIED BY CONSIDERATION
7 GIVEN.—For purposes of this chapter—

8 “(1) an exchange of property for property or
9 services is treated as a sale of property, and

10 “(2) an exchange of services for property or
11 services is treated as a sale of services,

12 without regard, in either instance, to whether other con-
13 sideration is received.

14 “(b) SPECIAL RULE WHERE SALE OF PROPERTY IN-
15 CLUDES INCIDENTAL SALE OF SERVICES.—For purposes
16 of this chapter, if in connection with the sale of any prop-
17 erty there is an incidental sale of services, such sale of
18 services shall be treated as part of the sale of such prop-
19 erty.

20 “(c) SPECIAL RULE WHERE SALE OF SERVICES IN-
21 CLUDES INCIDENTAL SALE OF PROPERTY.—For purposes
22 of this chapter, if in connection with the sale of any serv-
23 ices there is an incidental sale of property, such sale of
24 property shall be treated as part of the sale of such serv-
25 ices.

1 **“Subchapter E—Refunds; Small Business**
2 **Exemption**

“Sec. 10041. Refund for excess business purchase periods.

“Sec. 10042. Small business exemption.

3 **“SEC. 10041. REFUND FOR EXCESS BUSINESS PURCHASE**
4 **PERIODS.**

5 “(a) CREDIT ALLOWED.—There shall be allowed as
6 a credit against the tax imposed by section 10001 for any
7 taxable period an amount equal to the amount determined
8 under subsection (b), multiplied by the tax rate provided
9 in section 10001 in effect for such period.

10 “(b) DETERMINATION OF AMOUNT.—

11 “(1) IN GENERAL.—For purposes of subsection
12 (a), the amount determined under this subsection
13 for any taxable period is the amount by which—

14 “(A) the business purchases of any person
15 for a taxable period, exceed

16 “(B) the gross receipts of that person for
17 such period.

18 “(2) GOVERNMENTAL ENTITIES.—For purposes
19 of paragraph (1), the business purchases of a gov-
20 ernmental entity subject to tax under this chapter
21 for a business activity shall be reduced by the
22 amount of any subsidy provided for that activity.
23 For purposes of this paragraph, the term ‘subsidy’
24 includes the value of property or services used in

1 such activity for which no amount was paid or in-
2 curred, together with any amounts paid or obligated
3 from appropriated funds (except to the extent that
4 such funds represent operating revenues or other re-
5 ceipts from the activity).

6 “(c) REFUND OR CREDIT OF AMOUNT.—The amount
7 of the credit allowed under subsection (a) for any taxable
8 period is treated as an overpayment of the tax imposed
9 by section 10001 for that taxable period.

10 **“SEC. 10042. SMALL BUSINESS EXEMPTION.**

11 “(a) EXEMPTION.—Except as provided in subsection
12 (b), if the aggregate amount of gross receipts of any per-
13 son for any taxable period and the 3 preceding taxable
14 periods does not exceed the exemption amount, no tax
15 shall be imposed under this chapter (and no credit shall
16 be allowed under section 10041) for the taxable period.

17 “(b) EXCEPTIONS.—

18 “(1) PERSON MUST ALWAYS BE EXEMPT.—Sub-
19 section (a) shall not apply to any person for a tax-
20 able period unless the person was exempt from the
21 tax imposed by this chapter for all preceding taxable
22 periods.

23 “(2) ELECTION.—Subsection (a) shall not apply
24 to any person for a taxable period if the person

1 elects not to have subsection (a) apply for the tax-
 2 able period.

3 “(c) STATEMENTS.—A person to which this section
 4 applies for any taxable period shall file a statement con-
 5 taining such information as the Secretary may prescribe.

6 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
 7 poses of this section—

8 “(1) EXEMPTION AMOUNT.—The term ‘exemp-
 9 tion amount’ means \$100,000 (or an equivalent
 10 amount if the taxable period is not a calendar quar-
 11 ter).

12 “(2) PERSONS NOT ENGAGED IN BUSINESS FOR
 13 ENTIRE PERIOD.—If a person was not engaged in a
 14 business activity for the entire period referred to in
 15 subsection (a), such subsection shall be applied on
 16 the basis of the period the person was so engaged.

17 “(3) PREDECESSORS.—Any reference in this
 18 section to a person shall include a reference to any
 19 predecessor of the person.

20 **“Subchapter F—Definitions**

“Sec. 10051. Definitions.

21 **“SEC. 10051. DEFINITIONS.**

22 “For purposes of this chapter—

1 “(1) SALE OF SERVICES.—The term ‘sale of
2 services’ means the performance of services for con-
3 sideration, and includes—

4 “(A) the granting of the right to use prop-
5 erty, whether tangible or intangible, for consid-
6 eration, and

7 “(B) the granting of a right to the per-
8 formance of services or to reimbursement (in-
9 cluding the granting of warranties, insurance,
10 and similar items) for consideration.

11 “(2) SALE OF PROPERTY.—The term ‘sale of
12 property’ means the transfer of ownership of prop-
13 erty from a seller to a purchaser for consideration.

14 “(3) PROPERTY.—The term ‘property’ means
15 any tangible or intangible property, other than
16 money or any financial instrument.

17 “(4) BUSINESS.—The term ‘business’ includes
18 any activity carried on continuously or regularly,
19 whether or not for profit, that involves or is intended
20 to involve the sale of property or services.

21 “(5) BUSINESS PROPERTY OR SERVICE.—The
22 term ‘business property or service’ means any prop-
23 erty or service the sale of which by the owner or pro-
24 vider thereof would be a business activity or which

1 is used by the owner or provider in a business activ-
2 ity.

3 “(6) EMPLOYEE.—The term ‘employee’ has the
4 same meaning as when such term is used for pur-
5 poses of chapter 24 (relating to withholding).

6 “(7) PERSON.—The term ‘person’ has the
7 meaning given such term by section 7701(a)(1), but
8 also includes any governmental entity.

9 “(8) UNITED STATES.—The term ‘United
10 States’, when used in a geographic sense, includes
11 the customs territory of the United States (as de-
12 fined in General Headnote 2 of the Harmonized
13 Tariff Schedules of the United States) and any area
14 seaward of the States lying within the outer bound-
15 aries of the outer continental shelf (as defined in
16 section 1331 of title 43, United States Code).

17 “(9) GOVERNMENTAL ENTITY.—The term ‘gov-
18 ernmental entity’ means the United States, any
19 State or political subdivision thereof, the District of
20 Columbia, a Commonwealth or possession of the
21 United States, or any agency or instrumentality of
22 any of the foregoing.

23 “(10) EXEMPT ORGANIZATION.—The term ‘ex-
24 empt organization’ means any organization exempt
25 from taxation under section 501 (c) or (d).

1 “(11) FINANCIAL INSTRUMENT DEFINED.—The
2 term ‘financial instrument’ means any—

3 “(A) share of stock in a corporation,

4 “(B) partnership or beneficial ownership
5 interest in a widely held or publicly traded part-
6 nership or trust,

7 “(C) note, bond, debenture, or other evi-
8 dence of indebtedness,

9 “(D) interest rate, currency, or equity no-
10 tional principal contract,

11 “(E) evidence of an interest in, or a deriv-
12 ative financial instrument in, any financial in-
13 strument described in subparagraph (A), (B),
14 (C), or (D), or any currency, including any op-
15 tion, forward contract, short position, and any
16 similar financial instrument in such a financial
17 instrument or currency, and

18 “(F) position which—

19 “(i) is not a financial instrument de-
20 scribed in subparagraph (A), (B), (C), (D),
21 or (E),

22 “(ii) is a hedge with respect to such
23 a financial instrument, and

24 “(iii) is clearly identified in the deal-
25 er’s records as being described in this sub-

1 paragraph before the close of the day on
 2 which it was acquired or entered into (or
 3 such other time as the Secretary may by
 4 regulations prescribe).

5 “(12) USE INCLUDES HELD FOR USE.—Prop-
 6 erty or services held for use by any person shall be
 7 treated as used by that person.

8 **“Subchapter G—Administration**

“Sec. 10061. Liability for tax.

“Sec. 10062. Time for filing return; taxable period.

“Sec. 10063. Treatment of related businesses.

“Sec. 10064. Secretary to be notified of certain events.

“Sec. 10065. Regulations.

9 **“SEC. 10061. LIABILITY FOR TAX.**

10 “The person selling or importing property or services
 11 shall be liable for the tax imposed by section 10001.

12 **“SEC. 10062. TIME FOR FILING RETURN; TAXABLE PERIOD.**

13 “(a) FILING RETURN.—Before the sixteenth day of
 14 the second calendar month beginning after the close of
 15 each taxable period, each person subject to tax under this
 16 chapter shall file a return of the tax imposed by section
 17 10001 for such taxable period.

18 “(b) TAXABLE PERIOD.—For purposes of this chap-
 19 ter—

20 “(1) IN GENERAL.—The term ‘taxable period’
 21 means a calendar quarter, except that if a taxpayer
 22 has a taxable year under chapter 1 other than the

1 calendar year, then such term means a quarter of
2 that taxable year.

3 “(2) OTHER PERIODS.—To the extent provided
4 in regulations, the term ‘taxable period’ includes a
5 period selected by a person other than a calendar
6 quarter.

7 “(3) AUTHORITY TO SHORTEN LENGTH OF TAX
8 PERIOD.—The Secretary may shorten the length of
9 a person’s taxable period under this subsection to
10 the extent the Secretary deems such action nec-
11 essary to protect the revenue.

12 **“SEC. 10063. TREATMENT OF RELATED BUSINESSES.**

13 “(a) GENERAL RULE.—For purposes of this chap-
14 ter—

15 “(1) AFFILIATED GROUPS AND BUSINESSES
16 UNDER COMMON CONTROL.—Except to the extent
17 otherwise provided in regulations—

18 “(A) an affiliated group of corporations (as
19 defined in section 1504(a) without regard to
20 paragraphs (2), (4), and (7) of section
21 1504(b)), or

22 “(B) two or more businesses (whether or
23 not incorporated) under common control within
24 the meaning of section 52(b) and the regula-
25 tions thereunder,

1 shall be treated as one person.

2 “(2) CONTROLLED GROUP.—A controlled group
3 of corporations, as defined in section 1563(a) (deter-
4 mined without regard to the second sentence of
5 paragraph (4) of such section and without regard to
6 section 1563(e)(3)(C)), may elect to be treated as
7 one person.

8 “(b) RELATED PARTY TRANSACTIONS.—For pur-
9 poses of this chapter, transactions in the United States
10 between corporations or other businesses that are treated,
11 or that may elect to be treated, as one person under sub-
12 section (a) shall not be taken into account in computing
13 the gross receipts or business purchases of any such cor-
14 poration or business.

15 **“SEC. 10064. SECRETARY TO BE NOTIFIED OF CERTAIN**
16 **EVENTS.**

17 “To the extent provided in regulations, each person
18 engaged in a business shall notify the Secretary (at such
19 time or times as may be prescribed by regulation) of—

20 “(1) any change in the form in which the busi-
21 ness is conducted, and

22 “(2) any other change that might affect—

23 “(A) the liability for the tax imposed by
24 section 10001,

1 “(B) the amount of such tax or any credit
2 against such tax, or

3 “(C) the administration of such tax in the
4 case of such person.

5 **“SEC. 10065. REGULATIONS.**

6 “The Secretary shall prescribe such regulations as
7 may be necessary to carry out the provisions of this chap-
8 ter.”

9 **SEC. 302. REFUND AUTHORITY.**

10 Section 6402 (relating to authority to make credits
11 or refunds) is amended by designating subsection (h) as
12 subsection (j) and by inserting after subsection (g) the fol-
13 lowing new subsection:

14 “(h) REPAYMENT OF BUSINESS ACTIVITIES TAX.—
15 Within 45 days after the date on which a business activi-
16 ties tax return is filed pursuant to section 10062 showing
17 an overpayment, the Secretary shall make, to the extent
18 the Secretary deems practical, a limited examination of
19 the return to discover omissions and errors of computa-
20 tion, and shall determine the amount of the overpayment,
21 if any, for the taxable period to which the return relates
22 and refund the amount of such overpayment to the person
23 who filed the return.”

○

S 2160 IS——2

S 2160 IS—3

S 2160 IS—4

S 2160 IS—5